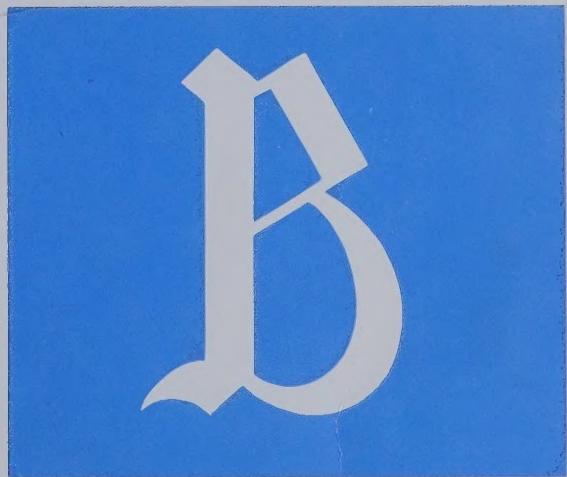


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Can Corp

BILTMORE annual report



1972

BILTMORE HATS LIMITED AND SUBSIDIARIES
COMPARATIVE FINANCIAL HIGHLIGHTS

Period ended
December 31, 1972

Period ended
October 31, 1971

	CONSOLIDATED		COMBINED		
	Biltmore and Custom		Biltmore, Custom, Watson		Biltmore only
	14 months	12 months	12 months		12 months
Sales	3,842,809.	3,387,034.	5,669,673.		2,662,746.
Profits before taxes	256,731.	222,734.	512,062.		73,994.
Profits after taxes	127,431.	109,334.	256,062.		45,194.
Earnings per share					
Undiluted	35.5¢	28.0¢	75.5¢		2.2¢
Fully Diluted	30.6¢	26.2¢	55.9¢		2.2¢
	Represents operations of Biltmore for fourteen months and Custom for two months.	Represents operations of Biltmore for twelve months and Custom for two months.	Represents operations of the three companies assuming the acquisitions had been made on January 1, 1972. Adjustments were made for imputed interest and salaries to make the figures comparable to future operations.		Represents results of operations for 1971 after the adjustment as outlined in Note 10.



the president's report

On behalf of the Board of Directors, I am pleased to present the Annual Report. In the past year, several events were undertaken that will be very significant in the Company's future:

- RECAPITALIZATION of the Company's SHARE STRUCTURE.
- ACQUISITION by MERBAN CAPITAL CORPORATION LIMITED of a major position in the Company's shares.
- ACQUISITION of CUSTOM LEATHER PRODUCTS LIMITED, Kitchener, Ontario. (Transaction closed on October 31st, 1972.)
- ACQUISITION of WATSON BROTHERS LIMITED, Toronto, Ontario. (Transaction closed on January 5th, 1973.)
- U.S. MARKET - initial distribution of headwear products direct to American retailers.

Our earnings for the 12 months ended December 31, 1972 were \$109,334 or 28.0¢ per share (26.2¢ per share fully diluted) as compared to \$45,194 for the 12 months ending October 1971 or 2.2¢ per share. This substantial increase was mainly the result of improved headwear earnings. CUSTOM LEATHER PRODUCTS LIMITED earnings were included only for the last two months of 1972 and none were included from WATSON BROTHERS LIMITED. If Custom and Watson earnings had been included for the full year ending December 31, 1972, our after-tax earnings would have been \$256,062. or 75.5¢ per share (55.9¢ per share fully diluted, and allowing for imputed interest costs.) Dividends of 25¢ were paid on each Class "A" share and 5¢ on each Class "B" and Common share.

Both sales and profits from BILTMORE'S headwear operations increased substantially last year, reflecting the initial results from our new program of marketing direct to the American retailer, and improved activity in Canada. The outlook for our headwear operations is quite bullish as we expect further gains in our penetration of the U.S. Market, and continued acceptance of the Company's products in Canada.

CUSTOM LEATHER PRODUCTS LIMITED, manufacturers of fine belts and other high-quality leather products, had another successful year even though confronted with sharply rising leather prices. The outlook for CUSTOM is quite positive because of planned improvements in its Canadian distribution and its increased participation in the U.S. Market.

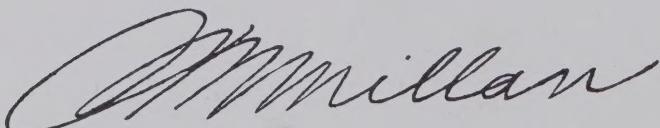
The acquisition of WATSON BROTHERS LIMITED, manufacturers of quality neckwear, was completed January 5, 1973. The pro-forma column of the Balance Sheet shows the effect of this transaction. Improvements in WATSON'S Canadian distribution have been undertaken; this should help the Company to continue its very successful earnings pattern of the past several years.

Both of our acquisitions have strong, well-experienced management teams. CUSTOM LEATHER'S president is Mr. Jack Young, who was a founder of the firm in 1949. Mr. William Detenbeck, president of WATSON BROTHERS since 1965, has been associated with the neckwear industry for many years.

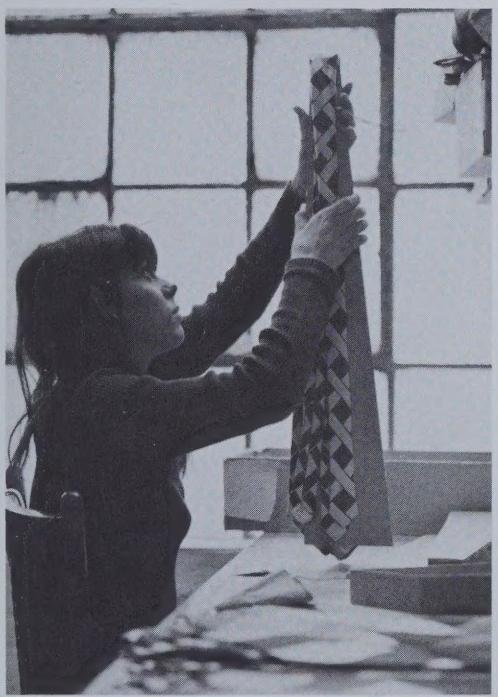
In order to properly reflect the new activities and direction of the Company, we are proposing to change our name to the Biltmore Industries Limited.

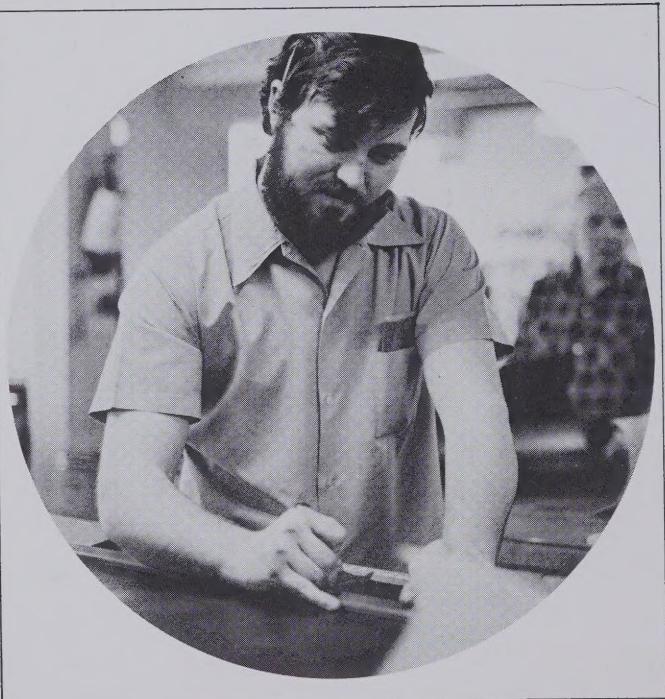
We extend our appreciation for the full support and co-operation of our co-workers as well as thousands of retailers from coast to coast, all of whom have contributed to our operations in 1972.

ON BEHALF OF THE BOARD OF DIRECTORS,



Norman McMillan,
President.





BILTMORE HATS LIMITED AND SUBSIDIARIES
consolidated statement of income

	Fourteen Months Ended December 31 1972	Year Ended October 31 1971 (as restated)
Sales	\$3,842,809	\$2,662,746
Cost of sales	2,503,215	1,876,160
Selling, general and administrative expenses	1,082,863	712,592
	<hr/>	<hr/>
Income before taxes	3,586,078	2,588,752
Income Taxes	256,731	73,994
Net Income	129,300	28,800
	<hr/>	<hr/>
Earnings per common and Class "B" shares based on the weighted average number of shares outstanding during the period	\$ 127,431	\$ (45,194)
Fully diluted earnings per share (Note 11)	35.5¢	2.2¢
	<hr/>	<hr/>
	30.6¢	2.2¢

consolidated statement of retained earnings

Balance at beginning of period:		
As originally stated	\$1,085,819	\$1,071,025
Deduct adjustment of provision for employees' retirement plans (Note 10)	16,257	6,657
	<hr/>	<hr/>
As restated	1,069,562	1,064,368
Net income	127,431	45,194
	<hr/>	<hr/>
Dividends:		
Class A shares	48,800	40,000
Class B shares	4,000	—
Common shares	10,308	—
	<hr/>	<hr/>
	63,108	40,000
	<hr/>	<hr/>
Balance at end of period	\$1,133,885	\$1,069,562

BILTMORE HATS LIMITED AND SUBSIDIARIES
consolidated balance sheet.

Assets

	December 31, 1972	October 31	
	Actual	Pro Forma (Note 13)	1971 (as restated)
Current:			
Cash	\$ 50,000	\$ 216,054	\$ —
Accounts receivable	1,165,635	1,387,152	1,218,534
Inventories (Note 4)	1,019,912	1,140,142	377,252
Prepaid expenses	12,061	13,241	7,608
	<hr/> 2,247,608	<hr/> 2,756,589	<hr/> 1,603,394
Cash surrender value of life insurance	13,184	15,395	46,852
Non-marketable investments, at cost	—	—	14,240
Fixed assets, at cost (Note 5)	1,442,998	1,494,515	1,307,570
Less - Accumulated depreciation	1,099,812	1,138,418	1,002,217
	<hr/> 343,186	<hr/> 356,097	<hr/> 305,353
Deferred income tax charges	21,200	21,200	16,700
Excess of cost of shares in subsidiaries over net book value of assets acquired	101,057	211,178	10,000
	<hr/> \$2,726,235	<hr/> \$3,360,459	<hr/> \$1,996,539

Approved on Behalf of the Board:

Norman McMillan, Director

Andrew Sarlos, Director

Liabilities

	Actual	December 31, 1972 Pro Forma (Note 13)	October 31 1971 (as restated)
Current:			
Bank advances (Note 6)	\$ 555,300	\$ 912,300	\$ 367,442
Accounts payable and accrued liabilities	541,943	746,805	308,274
Notes payable	64,572	144,572	—
Income and other taxes payable	103,212	93,548	70,074
Dividends payable	23,908	23,908	—
Current portion of long-term debt	39,199	39,199	40,048
	<hr/> 1,328,134	<hr/> 1,960,332	<hr/> 785,838
Long-term debt (Note 7)	28,753	30,779	55,664
	<hr/> 1,356,887	<hr/> 1,991,111	<hr/> 841,502
Shareholders' Equity			
Capital stock (Note 8)	235,463	235,463	85,475
Retained earnings	1,133,885	1,133,885	1,069,562
	<hr/> 1,369,348	<hr/> 1,369,348	<hr/> 1,155,037
	<hr/> <hr/> \$2,726,235	<hr/> <hr/> \$3,360,459	<hr/> <hr/> \$1,996,539

BILTMORE HATS LIMITED AND SUBSIDIARIES
consolidated statement of source and application of funds

	Fourteen Months Ended December 31 1972	Year Ended October 31 1971 (as restated)
SOURCE OF FUNDS:		
Operations —		
Net income	\$ 127,431	\$ 45,194
Add (deduct) charges (credits) which do not affect current funds		
Depreciation and amortization	31,018	28,192
Deferred income taxes	(4,500)	(4,700)
	<hr/>	<hr/>
Cash surrender value of life insurance policy	153,949	68,686
Value ascribed to common shares issued on acquisition of subsidiary (Note 8)	46,852	—
Sale of investments	149,988	—
Sale of fixed assets	14,240	—
	<hr/>	<hr/>
	4,675	5,175
	<hr/>	<hr/>
	369,704	73,861
APPLICATION OF FUNDS:		
Purchase of fixed assets, including \$63,186 in 1972 relating to acquisition of subsidiary	73,526	2,152
Increase in cash surrender value of life insurance in subsidiary	13,184	5,827
Reduction of long-term debt	26,911	40,048
Dividends	63,108	40,000
Adjustment of retained earnings for prior periods (Note 10)	—	6,657
Excess of cost of shares in subsidiary company over net book value of assets acquired	91,057	—
	<hr/>	<hr/>
	267,786	94,684
Increase (decrease) in working capital	101,918	(20,823)
Working capital at beginning of period	817,556	838,379
Working capital at end of period	<hr/> <hr/> <hr/> \$ 919,474	<hr/> <hr/> <hr/> \$ 817,556

BILTMORE HATS LIMITED AND SUBSIDIARIES

notes to consolidated financial statements

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

2. ACQUISITION OF CUSTOM LEATHER PRODUCTS LIMITED

Effective October 31, 1972 the Company acquired all the outstanding shares of Custom Leather Products Limited. The consolidated statement of income includes the results of operations of this company from date of acquisition.

Under the terms of the agreement pertaining to the acquisition of these shares the Company may be obligated to pay, over a four year period, as determined by various formulae based on earnings, additional amounts not to exceed in the aggregate \$360,000. Part of this contingent consideration is represented by a note convertible at the option of the holder or the Company into a maximum of 46,153 common shares at the rate of one common share for each \$3.25 of principal amount determined to be payable on March 31, 1976.

3. CHANGE OF YEAR-END

Commencing in 1972 the fiscal year-end of the Company was changed from October 31 to December 31 to coincide with the year-ends of its subsidiaries.

4. INVENTORIES

Inventories are stated at the lower of cost and net realizable value and comprise the following:

	December 31 1972	October 31 1971
Raw materials and supplies	\$ 567,025	\$ 109,534
Work-in-process	205,384	151,538
Finished goods	247,503	116,180
	\$1,019,912	\$ 377,252

5. FIXED ASSETS

The major categories of fixed assets and related accumulated depreciation and amortization (calculated using primarily the declining-balance method) are as follows:

	December 31, 1972		October 31 1971	
	Cost	Accumulated Depreciation and Amortization	Net	Net
Land	\$ 1,850	—	1,850	1,850
Buildings	424,490	193,998	230,492	244,158
Machinery and equipment	991,639	900,765	90,874	57,472
Leasehold improvements	25,019	5,049	19,970	1,873
	\$1,442,998	1,099,812	343,186	305,353

6. BANK LOANS AND ADVANCES

A subsidiary has pledged accounts receivable and inventory with a carrying value of \$834,500 as security for bank advances of \$306,439.

7. LONG-TERM DEBT

Notes payable to April 30, 1980	\$ 67,952
Less - Current portion of long-term debt	39,199
	\$ 28,753

8. CAPITAL STOCK

- (a) Changes by supplementary letters patent—On April 24, 1972 the Company obtained supplementary letters patent which authorized —
- (i) the cancellation of the 10,000 authorized but unissued Class A shares,
 - (ii) changing the 40,000 issued and outstanding Class A shares into 160,000 Convertible Class A Preferred shares without par value and 40,000 Class B Preferred shares without par value on the basis of 4 Convertible Class A shares and 1 Class B share for each existing Class A share,
 - (iii) changing the 50,000 issued and unissued common shares into 200,000 common shares without par value and 50,000 Class B Preferred shares without par value on the basis of 4 common shares and 1 Class B share for each existing common share, and
 - (iv) the creation of an additional 910,000 Class B Preferred shares and 800,000 common shares.

- (b) Authorized —

160,000 Convertible Class A preferred shares without par value, entitled to cumulative dividend of 25¢ per share per annum, each convertible into Class B shares on a share for share basis.

1,000,000 Class B preferred shares without par value, entitled to non-cumulative dividend of 5¢ per share per annum.
1,000,000 Common shares without par value.

After payment of the preferential dividends on Class A and B shares and a dividend of 5¢ on the common shares, the Class B and common shares share equally in dividends in excess of 5¢ per share per annum.

- (c) Issued —

	1972	1971*
160,000 Convertible Class A preferred shares	\$ 34,190	\$ 34,190
80,000 Class B preferred shares	17,095	17,095
206,150 common shares, including 46,150 shares issued in 1972, as partial consideration for the purchase of the shares of a subsidiary, at \$3.25 each	184,178	34,190
	\$235,463	\$ 85,475

* Comparative figures for 1971 have been restated to give effect to the changes outlined in paragraph (a).

- (d) Shares reserved —

	Class B	Common
For the conversion of Class A shares	160,000	
For the exercise of options (Note 9)	8,000	7,000
For the conversion of notes payable —		
See Note 2		46,153
See Note 13	54,858	
	222,858	53,153

9. OPTIONS

On June 9, 1972 the Company granted an option to an officer to purchase a total of 8,000 Class B shares and 7,000 common shares at a price of \$3.25 per share. The option, which expires on June 8, 1977, entitles the holder to purchase on a cumulative basis up to 1,600 Class B and 1,400 common shares in each year of the option period.

notes to consolidated financial statements

continued

10. EMPLOYEES' RETIREMENT PLANS AND DEFERRED INCOME TAXES

The Company has a unit purchase pension plan covering all permanent employees and also arranged to provide a director and senior officer an additional amount of \$8,356 per annum during his lifetime (guaranteed for five years) from October 1, 1972. The Company has fully funded its obligation under the arrangement with the director and senior officer by the purchase of single premium annuity contracts at various times during the five fiscal periods ended December 31, 1972; with the completion of the funding arrangements in 1972, the aggregate cost of the annuity contracts has been charged on a retroactive basis to earnings over the five fiscal periods at the rate of \$14,300 per period. The charges of \$14,300 are not allowable currently for income tax purposes and as a result deferred income taxes in the amount of \$4,500 and \$4,700 have been provided for the periods 1972 and 1971 respectively. The amount of deferred income tax charges relating to the five fiscal periods ended December 31, 1972 is \$21,200; this balance will be amortized over the five year guaranteed term of the retirement arrangement.

11. EARNINGS PER SHARE

Fully diluted earnings per share have been calculated assuming conversion of Class A shares and the exercise of outstanding options. In calculating such earnings a return of prime bank rate on the proceeds of the exercise of options has been assumed.

12. STATUTORY INFORMATION

The following items are included in the consolidated statement of income:

	1972	1971
Remuneration of directors and officers	\$164,464	\$ 95,307
Depreciation and amortization	31,018	28,192
Interest on long-term debt	2,767	4,695

13. PRO FORMA BALANCE SHEET

The pro forma balance sheet gives effect to the consolidation of the assets and liabilities of a subsidiary whose shares were acquired on January 5, 1973 as if that Company had been a subsidiary on December 31, 1972.

The outstanding common shares of this subsidiary were acquired by the Company for a consideration comprising:

- (i) cash of \$357,000 paid on January 5, 1973,
- (ii) an \$80,000 note payable on April 30, 1973, and
- (iii) contingent additional amounts payable over a four year period, as determined by a formula based upon the acquired Company's earnings, not to exceed in the aggregate \$250,000.

The cash payment of \$357,000 was obtained through short-term bank borrowing. Part of the contingent consideration noted above is represented by a note convertible at the option of the holder into a maximum of 54,858 Class B shares at the rate of 1 Class B share for each \$3.50 principal amount determined to be payable in the years 1974 and 1975 and 1 Class B share for each \$3.75 principal amount determined to be payable in the years 1976 through 1978.

auditors' report To the Shareholders of Biltmore Hats Limited:

We have examined the consolidated balance sheet of Biltmore Hats Limited and its subsidiaries as at December 31, 1972 and the consolidated statements of income, retained earnings and source of application of funds for the fourteen months then ended. Our examination of the financial statements of Biltmore Hats Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We did not examine the financial statements of one of the consolidated subsidiaries which statements reflect total assets and revenues constituting 34% and 7% respectively of the related consolidated totals and we have relied on the report of the auditors who have examined the financial statements of this subsidiary.

In our opinion these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the fourteen months then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for employees' retirement plans referred to in Note 10 to the consolidated financial statements, on a basis consistent with that of the preceding year.

We have also examined the pro forma consolidated balance sheet of Biltmore Hats Limited and its consolidated subsidiaries as at December 31, 1972 and in our opinion it presents fairly the financial position of the Companies as at that date after giving effect to the transactions set forth in Note 13 to the consolidated financial statements.

The consolidated financial statements of Biltmore Hats Limited for the year ended October 31, 1971 were examined by other independent public accountants.

Hamilton, Ontario
February 9, 1973.

Pricewaterhouse & Co.
Chartered Accountants



Custom Leather Products Limited

Custom Leather Products Limited, Kitchener, Ontario, was acquired by Biltmore on October 31st, 1972.

The company's major product is fine leather belts for men. Other products such as fabric belts, wallets, billfolds, spectacle cases, tool pouches, watch straps and leather specialty items make important contributions to the company's sales volumes and profits.

Custom sells direct to leading men's wear retailers across Canada through commissioned agents. The company is also experiencing increased interest in its products from customers in the United States, the Caribbean, and Japan.

In recent years, the improved market for leather products has resulted in increasing sales and profits for the company. Plans are currently being formulated to capture a larger share of the domestic and foreign markets to ensure that the trend continues.

The president of the company is Mr. Jack A. Young, one of the company's founders in 1949. He is ably assisted by Mr. Roy T. Murakami, and Mr. Clifford A. Brown, C.A.

Mr. Young was elected to the Biltmore Board of Directors upon the acquisition. We look forward to his contribution to the overall Biltmore group, as well as his continued strong leadership of Custom.



WATSON BROTHERS LTD.

Watson Brothers Limited, Toronto, Ontario, was acquired by Biltmore Hats Limited on January 5th, 1973. This company was incorporated in 1935 and since then has developed a product line of fine men's neckwear, handkerchiefs, belts and scarves. These products are sold under the Oleg Cassini, A. Sulka & Sons, Dumas and Watson labels to leading men's wear retailers across Canada.

In recent years, through improved merchandizing, selling and manufacturing techniques, the company has been able to expand sales volume while keeping cost increases and capital outlays to a minimum. As a result, the company has consistently experienced increasing profits. This trend should continue as the company seeks new markets and new product lines.

Mr. William A. Detenbeck, President, and Mr. Garnet King, the previous owners, have many years of experience in the men's wear business, and are looked upon as leaders in their field. They are backed by a management team that has a wealth of experience in the neckwear industry.

Mr. Detenbeck has been nominated to serve on the Board of Directors of Biltmore, and we look forward to his contributions to the Group operations as well as his continued strong leadership of Watson Brothers Limited.



BILTMORE HATS LIMITED AND SUBSIDIARIES
corporate directory

HEAD OFFICE, GUELPH, ONTARIO

Board of Directors

NORMAN McMILLAN, Guelph, Ontario
D. MICHAEL McMILLAN, Guelph, Ontario
ANDREW SARLOS, Toronto, Ontario
PHILIP M. SPICER, Hamilton, Ontario
JACK A. YOUNG, Kitchener, Ontario

Officers

NORMAN McMILLAN, President and Chairman of the Board
D. MICHAEL McMILLAN, Vice-President
NORMAN B. IRWIN, C.A., Secretary-Treasurer
JOSEPH G. WEIST, Manufacturing Manager

Subsidiary Companies

CUSTOM LEATHER PRODUCTS LIMITED, Kitchener, Ontario
WATSON BROTHERS LIMITED, Toronto, Ontario
BILTMORE HATS (WESTERN) LIMITED, Guelph, Ontario
(non-operating)

Auditors

PRICE WATERHOUSE & CO., Hamilton, Ontario

Registrar and Transfer Agents

CANADA PERMANENT TRUST COMPANY, Toronto, Ontario

Bankers

CANADIAN IMPERIAL BANK OF COMMERCE

Stock Listing

TORONTO STOCK EXCHANGE, Toronto, Ontario



